

## Message Text

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45

ACTION ARA-20

INFO OCT-01 ADP-00 AID-20 AGR-20 IGA-02 CIAE-00 INR-10

NSAE-00 RSC-01 EB-11 COME-00 TRSE-00 STR-08 TAR-02

HEW-08 DODE-00 PA-03 USIA-15 PRS-01 RSR-01 /123 W

----- 055284

R 101110Z AUG 73

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 9091

INFO AMCONSUL RECIFE

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 5095

E.O. 11652: N/A

TAGS: EFIN, EAGR, BR

SUBJECT: GOB AGRICULTURAL DECISIONS AND TRADE REACTIONS

REF: BRASILIA 4626

1. BEGIN SUMMARY. REFTEL REPORTED RECENT DECISIONS BY NATIONAL MONETARY COUNCIL TO INCREASE MINIMUM SUPPORT PRICES FOR MAJOR FOOD CROPS AND TO IMPROVE DOMESTIC SUPPLY OF BEEF. GENERAL IMPRESSION GAINED BY CONGEN SAO PAULO AND ACTING AG. ATTACHE FROM SOUNDINGS WITH THE TRADE IN SOUTHERN BRAZIL IS THAT GOB DECISIONS WILL NOT PREVENT SHIFT FROM CORN, COTTON, AND OTHER CROPS INTO SOYBEANS AND THAT MEAT SHORTAGES WILL NOT BE OVERCOME BY LIMITATIONS ON EXPORT ALLOCATIONS AND MAINTENANCE OF ESTABLISHED PRICES. FINANCE MINISTRY SOURCES EXPRESS FULL AWARENESS THAT EFFORTS TO INFLUENCE FOOD PRICES AND PRODUCTION UNDER CONSTRAINT OF GOVERNMENT'S INFLATION TARGET INTRODUCE MORE DISTORTIONS INTO SYSTEM, BUT THEY BELIEVE CURRENT POLICIES ARE CORRECT FOR RANTIONALIZATION OF OVERALL AGRICULTURAL SECTOR AND WILL SHOW DESIRED RESULTS OVER TWO-YEAR PERIOD WHEN DISEQUILIBRATING EXTERNAL PRESSURES SUBSIDE. END SUMMARY.

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2. WITH RESPECT TO "SOY FEVER" (TERM USED BY PRESS AND SOME

OVERNMENT OFFICIALS), MAJOR AGRICULTURE BUYERS INDICATE THAT INCREASE IN COTTON SUPPORT PRICES (43 PERCENT FOR COTTON SEED AND 40 PERCENT FOR LINT COTTON) IS NOT ENOUGH TO OFFSET THE MIX OF PLANTING BETWEEN COTTON AND SOY. SOME BUYERS HAVE COMMENTED THAT 67 PERCENT INCREASE IN MINIMUM PRICE FOR CORN PLUS AMPLE FINANCING HAVE HELPED SOMEWHAT, AT LEAST AS COMPARED WITH FARMERS' INTENTIONS PRIOR TO MONETARY COUNCIL DECISION. ONE SOURCE INDICATES 15 PERCENT REDUCTION IN CORN AREA IN PARANA, THE LARGEST CORN PRODUCER, VERY LITTLE IF ANY REDUCTION IN SAO PAULO, THE SECOND LARGEST PRODUCER BUT EXPECTS SLIGHT ACREAGE INCREASES IN GOIAS AND MINAS AND BETTER YIELDS TO OFFSET LOSSES IN PARANA. WITH REGARD TO SORGHUM, IT APPEARS THAT THIS CROP IS SO NEW TO BRAZIL AND SO FEW PEOPLE UNDERSTAND THE TECHNIQUES INVOLVED THAT THIS WILL LIMIT PLANTINGS DESPITE A VERY HADSOME SUPPORT PRICE. FOR BEANS, IT IS GENERALLY FELT THAT THE REDUCTION IN THIS YEAR'S CROP WAS DUE TO WEATHER CONDITIONS PRIMARILY, AND IT IS UNCLEAR WHAT EFFECT THE NEW, GREATLY INCREASED MINIMUM SUPPORT PRICES WILL HAVE ON BEAN PLANTINGS. ONE LEADING TRADE SOURCE REPORTED THAT HE ANTICIPATES A REDUCTION IN THE AREA OF CULTIVATION, DUE APPARENTLY TO THE POOR EXPERIENCE THIS YEAR.

3. CONVERSATIONS WITH GOVERNMENT OFFICIALS INDICATE THAT, WHILE THEY DO NOT EXPECT NEW SUPPORT PRICES TO RESOLVE PROBLEMS ARISING FROM SHIFT OUT OF DOMESTIC CONSUMPTION CROPS INTO SOY, THE DO BELIEVE THAT SUPPORT PRICES BUTTRESSED BY AGGRESSIVE CREDIT POLICIES WILL HAVE A SIGNIFICANT IMPACT ON DECISIONS OF SMALL AND MEDIUM FARMERS TO CONTINUE PLANTING BEANS, CORN AND RICE. PRINCIPAL AGRICULTURAL ADVISOR IN FINANCE MINISTRY TOLD EMBASSY OFFICER THAT BRAZILIAN SOY PLANTING WILL BE INFLUENCED BY WORLD PRICE DEVELOPMENTS OVER COMING MONTHS AND THAT A DROP OF 20 PERCENT IN WORLD PRICE WOULD BE ENOUGH TO DISCOURAGE MANY FARMERS. AS INDUCEMENT TO ENCOURAGE MORE BALANACED PRODUCTION, HE SAID BANCO DO BRASIL HAS INCREASED AGRICULTURAL CREDIT RESOURCES FROM 4 BILLION TO 6 BILLION CRUZEIROS WHICH WOULD BE USED ON A SELECTIVE BASIS TO PROMOTE PLANTING OF DOMESTIC CONSUMPTION CROPS. HE SAID LOCAL BRANCH MANAGERS WERE UNDER INSTRUCTIONS TO GRANT OR WITHHOLD CREDITS IN ACCORDANCE WITH GOVERNMENT'S AIMS. MONETARY COUNCIL DECISION REQUIRING PRIVATE BANKS TO INCREASE RURAL CREDIT FROM 10 PERCENT TO 15 PERCENT OF DEPOSITS IS ALSO EXPECTED TO HELP. IMPORTANT LIMITED OFFICIAL USE

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FACTOR CURRENTLY LIMITING SOYBEAN PLANTINGS IS SERIOUS SHORTAGE OF SEED, AND GOVERNMENT'S RELUCTANCE TO AUTHORIZE SEED IMPORTS MAY BE ONE OF ITS MOST EFFECTIVE MEASURE TO ENCOURAGE OTHER CROPS.

4. MINISTRY OFFICIAL ACKNOWLEDGED THAT LARGE EXPECTED BEAN CROP IN NORTHEAST HAD IMPROVED SITUATION FOR THAT PRODUCT, EVEN THOUGH SPECULATIVE PURCHASES MAY PREVENT MUCH OF THE IMPROVEMENT FROM BEING REFLECTED IN RETAIL PRICES.

HE SAID GOB DID NOT ANTICIPATE ANY FURTHER IMPORTATION OF BEANS BEYOND CURRENT CONTRACTS; HOWEVER, EMBASSY'S TRADE SOURCES INDICATE CONTINUING INTEREST IN U.S. BEANS.

5. MEAT. CONVERSATIONS INDICATE CONTINUING CONFLICT BETWEEN GOVERNMENT AND BEEF PRODUCERS. AMERICAN SOURCE CONFIRMED TO CONGEN SAO PAULO THAT PACKING COMPANIES MAY EXPORT IN 1973 A TOTAL OF 168,000 TONS OF MEAT WITH ALL TYPES UNDER CONTRACTS ALREADY SIGNED. NO NEW CONTRACTS MAY BE ENTERED INTO UNTIL THE SECOND HALF OF FEBRUARY 1974 WITH SOME SPECIAL EXCEPTIONS FOR SLAUGHTERHOUSES WHICH ARE COOPERATING FAITHFULLY WITH GOVERNMENT'S MEAT POLICY. GOB ALSO PLANS TO REDUCE KILLS BY 50 PERCENT BEGINNING AUGUST 1 AND START DISTRIBUTING FROZEN MEAT IN STOCK, WHICH IS CONSIDERABLE.

6. FINANCE MINISTRY SOURCE CONFIRMED TO EMBASSY THAT MEAT PRODUCERS HAVE BEEN PRESSING GOVERNMENT TO RELAX EXPORT ALLOCATIONS OR TO FREE DOMESTIC PRICES FOR FRESH BEEF. SOURCE SAID GOB COULD NOT ACCEPT CONTENTIONS BY CATTLE RAISERS THAT THEY ARE LOSING MONEY SINCE THEY CURRENTLY RECEIVE A PRICE OF 70 CRUZEIROS PER 15 KILOS OF BEEF ON THE HOOF COMPARED TO 48 CRUZEIROS A YEAR AND A HALF AGO. HE SAID GOVERNMENT INTENDS TO ALLOW GRADUAL INCREASES IN WHOLESALE AND OFFICIAL RETAIL BEEF PRICES BUT IT DOES NOT INTEND TO LET CONDITIONS IN EXPORT MARKETS DETERMINE DOMESTIC PRICES OR SUPPLY.

7. COMMENT. GOVERNMENT VIEWS MAY BE CORRECT AS TO NONCREDIBILITY OF COMPLAINTS FROM CATTLE RAISERS. THERE MAY BE SOME SUBSTANCE TO COMPLAINTS FROM SLAUGHTERHOUSES THAT THEY INCUR LOSSES IN BUYING CATTLE AT PREVAILING PRICES AND SELLING MEAT AT OFFICIALLY ESTABLISHED PRICES WITHOUT ADEQUATE SUPPLY FOR HIGH-PROFIT EXPORT SALES. AT SAME TIME ULTIMATE CONSUMERS ARE NOT BENEFITING AS SUPPLY LIMITED OFFICIAL USE

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SHORTAGES PERMIT BUTCHERS AND RETAILERS TO CHARGE WHAT TRAFFIC WILL BEAR. DECON 8/9/74  
CRIMMINS

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## Message Attributes

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